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SOLOSTOCKS: COMMERCIAL BUSINESS MODEL ASSESSMENT & FIT WITH CUSTOMER NEEDS

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Abstract

This Business Project aimed at providing a better understanding of SoloStocks' current customer as a driver for better monetization, growth and a sustainable long term positioning of the company in the market. Lack of professionalization of sellers and of a tailored value proposition were discovered to be the two main pain points of clients that were preventing satisfaction with the service provided. Moreover, different personas were identified using the platform in need for additional or distinctive features. Best practices of the market served as base for innovative recommendations on how to provide more value to the customers.

Keywords: Customer, Personas, Value Proposition, Professionalism

¹ Originally named "Commercial Business Model Assessment & Redesign", the scope of the project was modified following the first meeting with the company, in accordance to their needs

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I. Brief Context

a) Client

SoloStocks is a leading online B2B marketplace in Spain with presence in eleven additional countries in Europe and South America. Based in Barcelona, the company was founded in the year 2000 by Grupo Intercom as a B2B freemium online directory service, from which advertising fees were the main source of revenue. Later on, in the year 2012, when the current CEO Luis Carbajo was appointed, the business model was transformed to a pure-play online B2B marketplace focused on small-to-medium enterprises (SMEs) as it remains today.

The firm operates on a subscription based model with three different premium packs being offered to sellers on the platform (Bronze, Plata and Oro), differing not only in the number of products one is allowed to publish, but also in the visibility and promotion that is offered on the website. Additionally, the firm offers the possibility of buying directly through the website charging a commission for each transaction, but the use of this tool has been quite low in the past. No fees or commissions are charged to buyer side of the platform.

SoloStocks started its geographically expansion in 2009, but under the current management team has been prioritizing the consolidation of its leadership position in Spain over the entrance in more markets. As a consequence, the vast majority of the business comes from there in terms of revenue (84%) and page views (87%).

Current shareholders have invested a total of €3.6 million since inception, with the last capital injection taking place in 2013 amounting to €1.5 million with the purpose of mitigating all sites to a unified new technology platform. The founder, Grupo Intercom, remains a majority shareholder, with the minority being held by angel investors and SoloStocks employees.

In 2014, it was awarded with the “Best B2B E-commerce” prize in Spain highlighting its future potential.

b) Market overview

As previously mentioned, Spain is the core market for SoloStocks, reason why it was suggested and elected as the focus of the project. Therefore, the market overview will consist mainly of this geographical area.

The specific industry where SoloStocks is positioned is still at an early stage of development, implying that there is still a lot of room to grow. In fact, the online B2B market in terms of number of SMEs is expected to grow by 11% CAGR over the next four years worldwide and by 12% in Spain. If revenue is considered, the numbers are even greater with an enormous 27% and 36% respectively. These figures translate directly into an increase of the utilization of platforms such as SoloStocks.

There are two main ways of operating as an online market that are important to distinguish to understand the industry. One is the subscription-based method used by SoloStocks, where customers pay fixed amounts to be able to announce their products on the platform but where transactions are made mainly outside the website and with no fees being charged (most common for B2B markets). The other one is the transaction-based method, where a fee is charged for every deal that occurs through the website (most common for B2C markets). Usually companies focus on one, but offer the possibility of the other (case of SoloStocks).

As competition is concerned, SoloStocks is considered the leader of local players in Spain in the B2B market. When compared to Logismarket, Interempresas and Zentrada.es, the company positioned itself first both in terms of number of monthly visits to the website (4 millions in Spain) and number of suppliers selling in the platform (15,000 in Spain) in 2015. However, giant international players such as Alibaba or Rakuten also compete in the markets where SoloStocks is present. Although their business models differ substantially, mainly due to the presence of B2C business on the websites and the use of a core transaction based approach instead of a subscription based, these must be considered competitors in the sense

they also operate on the SME B2B market. As expected, Alibaba presents better statistics than the local players, including SoloStocks.

c) Current client situation

SoloStocks platform currently offers more than 2.7 million products over 38 categories growing at a CAGR of 39% in the last four years. Divided in several sub-categories, it now provides access to 247,000 companies for more than 4 million users of the website. The management team points out the platform design (focus on easy navigation and customer experience) and the launch of a mobile app (40% of the website traffic) as reasons for this evolution.

The firm has only been facing this fast growth since its strategic pivot in 2012. The increase in the number of users and products on the platform translated into an average yearly growth in revenues of 29%. The positive impact was both in subscriptions and commission based proceeds that now represent 84% and 7% of the total respectively. The remaining 9% still comes from ads revenues. However, the business has still not been able to achieve a positive EBITDA, a problem that has been facing since its conception sixteen years ago.

During the course of this year, the company made the strategic decision of abolishing the possibility of a freemium service, where the sellers would be able to post on the platform a small amount of products just by registering and not paying any amount. This implies that the only option to sell on SoloStocks now is to subscribe one of the packs being offered. After this strategic change, the number of sellers on the platform in Spain is expected to decrease from 15,000 to 12,000.

d) The Business Project challenge

SoloStocks has been growing at a good pace in the last few years and it has as its major challenge to find ways to assure that it will keep performing like that in the future. The

company believes that the best way to do it is to enhance the customer experience on the website by increasing traffic on the platform. As such, their goal for the project was to encounter solutions to increase revenues in a sustainable way for the future.

In order to get that, four main possibilities were assessed², but after the conversation with Luis Carbajo two were prioritized. Those were: increasing the value for existing customers and acquire new customers in the existing markets. As such, it was decided that it was paramount to have a better understanding of the current customer for increasing the revenue growth.

Therefore, the scope of the Business Project was reduced to the challenge of assessing the customers that SoloStocks currently had and the value proposition that it was providing, in order to compare those two sides and realize if there was a match or not. Building up on that analysis the goal was to find what was being done right, wrong or missing through a gap analysis. Finally, recommendations on how to approach better the customers and redefine parts of the value proposition would be the final output of the project.

The reason behind prioritizing this approach was that, based on the current client and market situation, it was clear that the increase of the revenues of the company had been smaller than the increase of the traffic generated on the platform. By positioning SoloStocks on a competitive landscape matrix with the axes being customer monetization and traffic generated, one could clearly see that despite attracting a higher number of visitors to its website than their competitors, it was not being able to monetize on that. Therefore, the goal of the project was to shift SoloStocks to the upper right increasing the values for both axes as one can see in Appendix 2.

Additionally, and on a later stage of the project, the search for financial information on possible takeover candidates in Europe was requested.

² Diagram with the four possibilities can be found in detail in Appendix 1

II. Reflection on the work done and individual contribution

a) Problem Definition

The underlying problem of the Business Project challenge previously explained was described in a twofold approach. On one side, there were doubts on the match between the value given by SoloStocks and the required by their clients. As such, it was of the utmost importance to understand that fit to improve customer satisfaction, creating the question: 1) How can SoloStocks increase the value provided to customers? On the other side, the company was failing to monetize on their current users correctly, mainly due to the fact that transactions are made outside of the platform and is therefore difficult to quantify what is the benefit to be on the website, so the underlying question was: 2) How can SoloStocks monetize them better?

By sub-dividing these main questions, it was concluded that there was a certain degree of interconnection, implying that by increasing the value given to customers, SoloStocks would be able to monetize them better. That being said, the key of the project was to understand the customers and the mismatch between what they search in SoloStocks and what are they getting. By closing this gap, the value provided would rise substantially and the opportunities to monetize better would arise easily.

b) Methodology

i. Hypothesis

After conducting a first research on the customer and business model, a first hypothesis was conceived that there was in fact a big gap between the customer expectations and the value proposition of SoloStocks. The main drivers of this hypothesis were the perception that the company had no information on its clients preferences and that the customer base was changing dramatically from year to year with a large churn rate (annual percentage rate at which customers stop subscribing), indicating dissatisfaction with the service. Additionally,

the benefits of up-selling from pack to pack besides number of products in the catalogue were not perceptible. Increasing customer knowledge and value provided was then believed to be the solution for the defined problem.

ii. Methodology

In order to answer the questions posed by the problem definition and testify the hypothesis, three main deliverables were produced:

- 1) Development of a wide **Data Analysis** with the initial purpose of getting to know the current customer base and segment it. Also used to validate the current pricing model and to derive drivers of willingness to pay using performance KPIs. Internal databases, a survey and external databases were utilized in order to achieve these outcomes.
- 2) Creation of **Personas** as a tool to better segment SoloStocks customers, so as to personalize them based on structural variables such as industry, size, etc or by use case similarity. Then cluster them in different groups and map their needs and pain points in a **Customer Journey Map** that entailed the different steps that are required to conduct sales on the website. A Pareto Analysis and in-depth external and internal interviews served as tools to achieve this gap analysis.
- 3) Execution of a thorough **Competitor Analysis** to identify industry best practices for the pain points of the personas. Additionally, it would serve the purpose of understanding the competitive position of SoloStocks better and the key success factors of the industry. In order to obtain these goals, a macro and micro-level analysis were conducted based on several frameworks. Furthermore, both local and international players were scrutinized in the search for best practices.

With these three deliverables an internal and external analysis could be done to identify customer needs and derive opportunities to monetize. Based on that, recommendations could

be given building on what competitors are already doing and complemented with innovative ideas.

In addition, with the goal of assuring a good project management, a project governance strategy was implemented since the beginning. The project was divided in three stages: Research Phase, Interview Phase and Analysis and Solution Development Phase, with goals well defined for each of the stages. Equally important, bi-weekly steering sessions meetings to monitor the progress of the project were scheduled both with the CEO of SoloStocks, Luis Carbajo, and with the Project Manager, Robert Aguillera. Based on the recommendation of the latest, a team leader was appointed to be the bridge between the group, university and SoloStocks. Finally, each team member had clear assignments to ensure efficiency and task delivery on time.

iii. Analysis

1) Data Analysis

Starting with the data analysis, it was important to understand the characteristics of the current customer to better comprehend the match with what was being delivered. Bearing that in mind, several datasheets were requested to the company with internal data on all users.

Firstly, structural variables were analysed such as industry, time spent on the platform, type of pack subscribed or location. Unfortunately, due to lack of information on SoloStocks base, it was very difficult to segment, making this analysis only used as a snapshot of the current customer base. The major conclusion was that the three biggest categories on the platform represented 25% of the income and had the best freemium to premium ratio. Running a correlation between the size of a category and the share of premium accounts on that same category proved this by turning out to be positive and significant. Additionally, location was disregarded as a differential factor.

To overcome that shortage of resources, a survey was conceived and sent to all the companies on the spreadsheets. It was designed looking for three main pillars of information: size, familiarity with selling through online channels and qualitative inputs on satisfaction with the platform. Despite getting some useful insight on the first two, mainly that the clients are in fact small to mid-sized companies with relatively low income coming from online channels selling only through their own website besides SoloStocks, the response rate was too small to be representative (around 5% of the total sample), which turned the focus onto the qualitative rather quantitative input. This was later used to compile the recommendations.

Since there was still not enough quantitative data, an external database was used to fulfil the gaps. That was called SABI, but once again challenges were found because of download restrictions and connectivity issues, using only a sample of 200 companies as proxy as solution for this problem. By having access to values such as operating revenues or total assets, the assumption that SMEs are the representative customer of SoloStocks was confirmed. Furthermore, it was acknowledge that the size of the companies differs from Bronze to Prata and Oro, with the latest two being way larger than the first one, denoting what could be an opportunity to increase prices.

After getting to know the customer, it was important to use data to check what was driving willingness to pay and if the current monetization was appropriate or not. With the use of the tools available, two major performance KPIs were identified as driving the willingness to pay. Those were visibility on the platform and catalogue listing, identified as number of impressions per product per pack and number of products listed per pack respectively.

When analysing what was being offered by SoloStocks, a mismatch was identified. While it was true that up selling through the packs would increase the number of products listed per account, it was discovered that there was no statistically significance on 1% level on visibility between the different packs. Despite the fact that it is not currently in use anymore, the

analysis showed that there was actually an increase in visibility when upgrading from freemium to premium. Therefore, there was only incentive to upgrade to Bronze, but not between pack in terms of visibility, meaning that one of the drivers customers were looking and willing to pay for was not being delivered, suggesting that the current monetization and value delivered were not totally appropriate.

2) Personas and Customer Journey Maps

The first step of this deliverable was to design the Customer Journey Map and decide on the focus of the interviews to build the personas. To accomplish the first, internal interviews, mainly with the sales team, were led so as to understand what are all the steps a customer has to take to actually perform a sale on the platform. The structure chosen afterwards was Presentation, Lead, Order, Delivery, Payment and After Sales. As far as the second point was concerned, a Pareto Analysis was taken from the Data Analysis section to focus the interviews on the most profitable and relevant clients. With the outcomes of these two actions, guidelines and targets for the interviews were chosen, and the collaboration of the sales people to schedule the interviews was requested.

The next stage was to conduct the interviews with the different customers looking for similar use cases and pain points to cluster them in different groups. The response rate to the interviews was lower than expected making it harder to find common patterns, reason why the collaboration of the CEO was asked in scheduling them. After reaching a representative number of conversations with different clients, their processes were mapped into the Customer Journey Map and grouped by similarities.

Following the map analysis, three personas were derived representing the great majority of SoloStocks clients. The first one is Sara, characterizing all the sellers that are only for looking for B2B buyers, with high-value products and a large to medium catalogue that considers negotiation key in the sales process. Usually from the Machinery category, her goal in using

SoloStocks is to increase visibility of her online catalogue. The second one is Xavier, representing sellers of medium value products with non-negotiable prices (excluding rappels), professionals at e-commerce and using an own channel as well. Mainly from the Food and Gift categories, the goal of this persona is to attract higher traffic to his own channel and have additional sales through multi-channels. Finally, the last persona is José, on behalf of all the sellers with small businesses selling small-value products both for B2B and B2C clients. With low experience in e-commerce, his objective is to try to find new ways to increase sales.³

Looking at their pain points in SoloStocks, there are clear problems that can be fixed, if the value proposition offered to each of the personas is adapted. Sara complains about the visibility it has in the first stage of the process, Presentation, due to high competition and also how it does not improve substantially from pack to pack. Xavier is concerned about the cumbersome process it has when negotiating with potential clients; it protests about the amount of leads it has that not convert to sales and make him waste time he does not want to waste. José is just worried about the low orders and sales it has on the platform; not knowing how to use e-commerce, he has problems identifying the value that SoloStocks provides.

Once again, a gap was found between what customers want and get from the platform, leaving more room for improvement.

3) Competitor Analysis

Following the methodology structure, a macro-level analysis was first put into place to understand the competitive landscape of the industry in Spain. A Porter Five Forces Analysis showed that customers have high power in this industry due to the number of similar alternatives and low switching costs. Furthermore, the industry still has a lot of relevant substitutes such as the B2C platforms that also do B2B, customers' own channels and, of

³ A description of the personas can be found in Appendix 3

course, all the offline distribution channels that are still dominant. Being a very competitive industry at an early stage of development, it needs to work towards increasing relevance for the customer and fending off online and offline substitutes.

Following up on that, a micro-level analysis was performed to the Spanish market. Besides the conclusions previously stated that SoloStocks is the leader among the Spanish competitors but still falls behind the international giants in terms of traffic generated, an investigation of the usual visit to the website was made. In terms of Bounce Rate (percentage of visitors that leave the website after seeing only one page), daily time on the website and page views per visitors, SoloStocks falls to the last positions when compared to its local competitors, indicating that the experience offered might not be the most appropriate in the market.

After evaluating the competitive landscape, a careful literature review was made in the search for the key success factors of the industry. There are three main aspects that drive triumph: scale, customer professionalism and tailored value proposition. Firstly, it is paramount to attract individuals to engage on the website to create network effects, increasing sales on the platform and visibility of the later outside. Secondly, according to a study from the Economist Intelligence Unit (2014), there are eight main reasons that cause a business relationship to finish. It seems that among those, five can be controlled by an online market place mainly by increasing the professionalism of the platform members. Finally, it is key to create efficiencies for both sides of the platform because it is the main differentiator against traditional channels.

The last output of the competitor analysis was to identify the market best practices in each of the steps of the customer journey, looking for processes that could be scalable to SoloStocks and solution for the pain point of the personas. From the previous analysis on key success factors and from the Customer Journey Maps, the following procedures were considered inefficient and searched in competitors: Matching between buyer and seller (A), Visibility (B),

Negotiation Process (C) and Member Professionalism (D). Starting from a full screen of several international players, the following were chosen as appropriate:

A) ThomasNet, a North American player, was identified as the one matching supplier and buyer better in the market. They do it by presenting the buyer side with a product and supplier intelligent search tool that filters based on several criteria decreasing the number of useless leads. On the supplier side, Indiamart, an Indian company, also as a best practice matching both parties. They offer suppliers with the opportunity to purchase buyer's shortlists (requests that buyers can choose to fill out to receive calls from relevant suppliers) by paying a fee but guaranteeing a promising contact. This is a great tool to monetize while improving efficiency of the value provided.

B) For the visibility problem a Spanish competitor was chosen, Zentrada.es, since is the one that presents better metrics of time spent on the website per visit and per day. The differentiator factor identified was the placement of products right on the front page, a space that can create more leads and more traffic to sellers and that is catchy for buyers, being once again a good opportunity to monetize.

C) Regarding the Negotiation process problem there seems to be a "white spot" on the market, since no other player seems to be doing it better than SoloStocks is right now.

D) Lastly, once again Indiamart and ThomasNet presented the best practices in terms of Member Professionalism. The former offers a learning center where suppliers learn how to provide professional services to customers, while the latest sells an eBook with the critical things that buyers evaluate on suppliers' behaviour and offers web-marketing solutions, such as Website design among others.

Additionally, as requested, financial data was provided for possible take over candidates in Spain, Belgium and France. For Italy, no suitable company was found to present data.

c) Recommendations to the company

With the findings from the analysis several conclusions were derived and recommendations suggested. In order to communicate them appropriable, two conversion funnels were designed, one for the buyer side and other for the supplier (seller) side. Since a platform includes both and there is a direct relationship between improving one and the other, it was reasonable to include the two funnels on the analysis. Recommendations were though to increase the conversion rates for each of the steps of the funnels as showed in Appendix 4.

Starting with the buyer side, with the purpose of inducing a potential buyer to actually visit a seller page, it was suggested that SoloStocks incurs in two core measures. The first one was to **adapt the front page** to increase customer retention on the website. When comparing the company home page with the best practice case of Zentrada.es, it is much more spacious and without concrete offerings being presented. It was recommended that the company places featured products, prices and discounts right on the landing page to improve this step of the funnel. The current and suggested SoloStocks land page is presented in Appendix 5 and 6.

Moreover, **refining the matching system** can have a tremendous effect on improving not only the number, but also and more important, the quality of the contacts between buyers and sellers. Thus, the second measure was to adapt the search tool of ThomasNet to SoloStocks. It is believed that the possibility of filtering better the suppliers can lead to increased satisfaction on both sides, since contacts will more likely end up being successful. For that to happen, it was thereby recommend that the company allow the buyer to choose not only the company name or the specificity of the product, but also the type of company (e.g. manufacturer, distributor, service provider) because this is considered key in B2B markets. Additionally, based on the qualitative input from the survey, many suppliers complained about receiving contacts from places they are not capable to sell, hence a location filter should

also be included, requesting sellers in the beginning to deselect areas they do not wish to sell and buyers to filter for where they want to have their product delivered to.

The next steps of the buyer funnel are to actually contact the supplier, purchase the product and become a repetitive user of the platform. To increase conversion for these three steps, **professionalization of sellers** was considered key. SoloStocks is actually already providing some additional services to suppliers focused on Internationalization and Product Presentation. The problem is that they are extremely difficult to find on the platform and are only provided based on requests.

With the results of the survey, it was clear that the majority of the customers still have little experience selling online, therefore the suggestion was that SoloStocks becomes suppliers' partner in their digital transition. It was recommended that they follow the market best practices, by implementing an adapted version of the eBook of buyer expectations of ThomasNet providing insight into buyers' behaviour, advice on how to present information on the web and on how to use SoloStocks (in the interviews the vast majority had no knowledge about several services currently offered). Furthermore, the company should keep offering the additional services. However, it was advocated that it should deemphasize slightly the focus on internationalization, since the average customer are SMEs only selling in Spain, and emphasize more on online marketing. Moreover, it needs to promote these additional services much more aggressively so customers become aware of it.

On the supplier conversion funnel, the first step for a supplier is to register on the platform after visiting it. In order to increase the number of people doing this step, it was suggested that SoloStocks **communicates its added value better**. That could be done by presenting testimonials of success stories right on the front page, and not hidden below as it is right now. Additionally, these success stories should be much more personal than they currently are. Placing a picture of the person telling the story right next to it can be a great way to make

people relate to what is being said helping to convince sellers about the benefits of being registered on SoloStocks.

The following step is to actually publish a product and subscribe the Bronze Pack. For this phase, it is believed that the previously suggested measure of creating an eBook of Best Practice would increase the professionalization of the sellers and their likelihood to sell successfully, raising their willingness to pay for the platform. Moreover, keeping communicating the added value is of the utmost importance. One problem mentioned both in the survey and in the external interviews was the lack of information and perception of value of being registered on the platform. In fact, there is a personal area on the webpage that presents metrics that no one is aware of, so promoting it is also important to increase conversion in this step.

Finally, comes the up-selling packs stage. In order to create more incentives for suppliers to actually pay more for a better pack, two measures were suggested: 1) **Increasing visibility differential across packs**; 2) **Creation of differentiated price tools**.

The first measure comes from the gap analysis performed that showed that customers were willing to pay more for visibility, but that there was no statistically significance in the increase of this metric across packs. Bearing that in mind, it was suggested that SoloStocks follows the example of Indiamart and markets the buyers' shortlist, offering them to customers in the gold pack. In fact, SoloStocks already has a "Necesito" function where buyers can state their requests. If it automatically matches those with suppliers' capabilities, the process will be easier for both sides, and suppliers will have a lot of incentive to up-sell. Also, the products that were suggested to be placed on the front page could be marketed and offered to suppliers in the higher packs, increasing their visibility.

Another recommended measure was the establishment of differentiated price tools. In addition to the current available chances of classic price per unit, tranche pricing (thresholds

for bulk discounts) and price on request (ask the price with one click), an assisted negotiation should be created. For the first two options, that usually apply to the personas Xavier and Jose, the supplier should have the opportunity to state that the price is non-negotiable, which would automatically force buyers that wanted to contact them to announce the subject on a dropdown menu with the option price blocked. This would solve the cumbersome negotiation process that the personas complained about. For the last option, a form with quantity and prices should be created to facilitate the process. This would be ideal for Sara that finds negotiation key for her business, but would increase professionalism of the sales process with this form and save time.

Complementary to the suggestions provided, a small impact analysis was made based on web-research addressing costs, both in terms of money and time, and possible impact based on specific KPIs. It was concluded that the professionalization of sellers, despite being the one that it takes longer and more costly, is also the one that creates more impact on the long run. Another important finding was that all measures seem to be rewarding, since based on the research, the impact is never lower than the costs. Finally, a simple financial forecast was delivered showing the impact that measures can have on worst, normal and best case scenario.

d) Concerns

Regarding the final outcome of the Business Project, there are some shortcomings and limitations that were faced and identified along the way. Firstly, the survey results cannot be used as representative to the entire SoloStocks customer base, since the response rate was way lower than desired. Secondly, the personas were only built for use cases and not for specific clusters, meaning that they are not as easily identifiable as ideally they would be. Moreover, some of the data requested to the company was not existent or took longer than expected to get, which forced the analysis of some of customers' characteristics to be simplified. Furthermore, time and availability constraints prevented the realization of interviews with

more companies that could have strengthen the descriptions of the personas. The fact that many companies chosen for the interviews did not reply, created the need to focus more on some categories than others due to lack of information. Finally, since the industry is still at an early stage of development, there are few studies available that make it harder to predict the impact of the recommendations.

Some implementation problems can also be expected. On one side, the better matching search engine tool assumes a high number of suppliers on the platform, which might not be a reality for SoloStocks, even more after the closedown of the freemium possibility. On the other side, the increase in the professionalization of sellers assumes that they are rationale and willing to spend some time and money to improve their sales online, which might not be true for the average SoloStocks customer that still prefers to do business off-line and is not willing to give up on that. Finally, the fact that SoloStocks still works in a start-up environment and never faced profitability during its lifetime might complicate the financing of the recommendations. Nevertheless, even the worst-case scenario assumes relatively low initial investment costs, since the majority of the suggestions is more related with running costs that initial investments, reducing the likelihood of facing a problem on this particular field.

e) Individual Contribution

My individual contribution to the final outcome of the Business Project can be evaluated in two separate ways: in terms of my support to the progression and flow of the assignment, and in terms of the actual input I provided to the final presentation.

Regarding the first point and based on the governance previously explained on the methodology section, I believe it was aligned with the team effort. By scheduling bi-weekly meetings with the ones responsible for the project (tutor and company representative) and within the group, all members were keeping track on the progress and suggesting next steps to take. Moreover, by defining clear tasks, everyone was presenting their own contribution each

week, while the others tried to provide insights or suggestions for all parts. In fact, the entire recommendations phase was performed with all group members, so that everyone could contribute with their own ideas. As expected, some of the shortcomings that were faced during the project delayed some people findings in some weeks, which sometimes delayed the entire flow of the project. Personally, being responsible for the Data Analysis part, and therefore dependent on the data to perform my tasks, I also faced some weeks when I could not present my findings. Nevertheless, as soon as the data was provided, everything advanced smoothly and with no issues being faced, reason why I can state that my contribution to the overall progress was very good and aligned with the rest of the team members.

In what concerns the second part, the actual input I provided to the final outcome, I had two main responsibilities in the group. One was the Data Analysis section, from which I was responsible for the analysis of the main finding on the current customer and supportive on the KPIs analysis and its implications. For the first one, I took part on the gathering of information by requesting data to the company, creating the survey and downloading the information from the external database SABI. Furthermore, I collected the findings and selected the best way to present the message that was derived from this analysis. The second main responsibility I had was to actually prepare and conduct the interviews. Since the majority of our group was non-Spanish speaker, the ones that were had to formulate the guidelines, based on the sales people input but also looking for the missing information from the other analysis, and lead the interviews. Consequently, I took part in mapping the customer journeys from the customers, looking for similar use cases to cluster them for the creation of the personas. Finally, together with the rest of the group, I was involved in the preparation of the recommendations and final company presentation.

III. Academic Discussion

a) Possible link with your MSc field (Finance)

The object of study of this thesis will be the valuation of Internet firms in the Start-up and Rapid Expansion stage of development. Being SoloStocks a company still at an early stage in the spectrum of life cycle of a company, even more after its strategic pivot in 2012, I consider this to be a subject of my own field of studies, Finance, that can be of extreme utility to study and that fits the company current issues and challenges. Even though it is not a topic directly related to the challenge of the Business Project, there are two main reasons why it is appropriate: on one side, it is of the utmost importance for a firm to have an idea on how much it is worth in order to get financing to keep growing, per example through equity (usual case for start-ups); on the other side, since SoloStocks is looking for possible takeover candidates in other countries that are also characterized as internet start-ups, the ability to price them correctly will be key to make a good deal.

b) Relevant theories and empirical studies

Valuation poses the major challenge at this early stage since it is only based on future growth potential and the lack of exiting information makes it difficult to predict it correctly. According to Damodaran (2002), the inputs need to be estimated and are therefore likely to have considerable errors. Moreover, several times are more based on managers' competences to turn ideas into successful business rather than on good products. Particularly, Internet companies tend to be even more difficult to evaluate, as it was proved by the dotcom bubble and following stock market crash in the late 1990's and early 2000's. In general, most of the valuation techniques are tailored to value mature companies in somewhat known and predictable industries, therefore literature has been arguing about the need or not to deviate from classic valuation models to value Internet based firms. In order to better understand this need for different methods it is important to identify the flaws of the current models in this type of companies.

The most important and well-known method is the Discounted Cash Flow (DCF) valuation. The idea states that “the value of any asset is the present value of the expected future cash flows on it” (Damodaran 2012). The expected future cash flows are discounted at a rate that reflects the risk of the cash flow and are then summed up to get the value of the asset. While there are many variants of the DCF method, the system of valuations stays the same, which makes it so flexible. However, the result of the valuation will only be as good as the components of the method (Damodaran 2012). Those components include Free Cash Flows, discount rate and terminal value.

Despite being considered by Koller et al. (2005) as the best method to value high-growth companies, DCF presents a lot of difficulties for estimating the three components. For the cash flows part, usually historical performance is used to get an idea of how the company will perform in the future. However, several times this type of firms present negative earnings and growth rates that are not sustainable in the long run (case of SoloStocks). Regarding the discount rate factor, in order to use a premade model such as the Capital Asset Pricing Model (CAPM) it is mandatory to have a risk factor attributed to the industry or comparable firms, which poses a challenge in such “young” industries. Finally, the terminal value for firms that are not profitable can represent more than 100% of the firm valuation. Being so sensitive to inputs, slight changes can affect tremendously a valuation making it much less accurate. Being the lack of information a problem already identified, in the most dramatic case, DCF can turn into more of a guess-work than an actual analysis.

Another common and highly used method is the Multiples Valuation, due to the easiness of use it presents when compared to others. The intuitive idea behind it is to look for comparable measures of value that can be applied from one company to the other. An intrinsic assumption of this method is that the market is correct and therefore efficient. Additionally, since there is no two firms that are exactly the same, there is room for a bias by the analyst. (Damodaran

2012). Different multiples are used to perform this valuation: earnings based, book value multiples, revenue and sector-based multiples. However, for companies such as SoloStocks this represents a big issue. Earnings are reported to be negative most of the times invalidating the first type of multiples. Book value multiples, despite being available, are not appropriate to value technology companies since most of their value comes from assets that are not shown in the book values, as per example the customer base. Revenue multiples are available, but disregard the lack of profitability which has to be accounted, while sector-based multiples are an interesting way to value high-growth companies, but face the problem of over or undervaluation of the industry, which can translate into a series of bad valuations, such as the one that happened in the dotcom bubble. Finally, finding comparable firms with publicly available data can pose a huge challenge in less developed industries, since many players are private and chose not to disclose their information.

Literature suggests several corrections to these methods in order to overcome the flaws they present to value Internet start-ups.

For the DCF valuation, Mun (2002) states that for highly uncertain industries such as the Internet, the “cash flows can no longer be characterized by a single value but rather by a range of values of its possible consequences”. Following that idea, Koller (2005) suggests using a scenario based DCF that takes into account the possible developments of the industry and weigh them by probability of occurring as a solution. However, it is still difficult to assess the true weights to give to each growing scenario. A lot of steps have been developed over the years to reduce the noisiness of the DCF components however “the valuation of a firm with negative earnings, high growth and limited information will always be noisy.” (Damodaran, 2002). Despite that, each component can be predicted using some practices that make the valuation more precise.

One suggested approach to minimize the flaws of the DCF approach is the Monte Carlo Simulation. This comes as an evolution of the previous explained proposal of a scenario based DCF. The problem with the latest is that only one input is tested at a time, while the Monte Carlo Simulation considers all possible combinations of input variables (Lerner & Willinge, 2011). The major advantage is that one gets a distribution for the expected value rather than a point estimated (Damodaran, 2002).

In order to complement the conclusions from the DCF method, other possibilities are taken into account. Mun (2002) states that standard DCF tend to understate the option value attached to growing profitable lines of business, for what he believes that Real Options are the answers to evaluate projects with a lot of uncertainties. A real option is basically a call option applied to real concepts, where the holder has the “option” to exert it or not. The main value it is able to catch is flexibility. This can be presented in several ways such as the opportunity to “increase or decrease rate of production, defer development or abandon a project” (Lerner & Willinge, 2011). For such young industries, such as the one being studied but also a lot of others that have a lot of intrinsic value in options (e.g. pharmaceutical industry), this method has the big the advantage of being able to absorb the learning and adaptive behaviour and transform it into a valuation (Damodaran, 2009) This option premium would be an add-on to the DCF value, being the final value the sum of the both parts.

Regarding the second method studied in this thesis, Multiples, some suggestions are also derived to increase its performance in valuing Internet start-ups. The common multiples used were proved to be relatively inaccurate in valuing this type of firms mainly due to the lack of information and negative earnings, reason why companies must look into specific value drivers and use them. Lerner & Willinge (2011) suggest using the number of subscribers enrolled as an appropriate multiple for Internet companies, capturing a value that it is not present in the Book Value.

Finally, a third method is suggested to serve the specific purpose of overcoming what cannot be improved in the most classic methods and be used as another way to corroborate their results. The Customer Lifetime Value method consists in the present value of all future profits from a customer during his lifetime with a firm. It is computed as the margin a firm will take on average from a single customer minus the cost of acquiring him or her. Afterwards and assuming all the value of the company comes from its clients, by multiplying the final margin by the potential number of customers a firm will have one gets the final valuation. This is a method very useful for Internet start-ups because incorporates acquisition costs. Since one of the key success factors of the industry is the ability to demonstrate to clients that a brand gives them unique features that competitors cannot in a sustainable way and not only attract them through direct marketing, this method takes into account the long-term sustainability of the firm. However, it also has a high degree of uncertainty since estimating the potential number of customers is a difficult task that will always require estimates, no matter the method used.

c) Implications for theory and future research

The tremendous growth in number of start-up firms operating in the Internet industry has sparked discussion on how to properly value them. With new Venture Capital Funds being created at an impressive rate, new methods arise and are still pending to be proved better or worse than the classical ones. Nevertheless, it is clear that there are adaptations suggested in this thesis that can turn the methods more accurate for this type of firms.

In what concerns SoloStocks, more studies need to be done in the specific category of B2B Internet start-up companies. Rajgopal et al. (2002) proved that web traffic measures and managerial actions contain significant information regarding a firm's valuation, but no optimal way was found so far to incorporate these findings in valuation models. Consequently, this topic has to be developed in the future, in order to find a better way to value SoloStocks

than the DCF valuation adapted to start-ups, which is the current best method as far as I am concerned.

IV. Personal Reflection

a) Personal Experience

As one of the biggest opportunities that the CEMS Program provides to students, participating in a real life company consulting project was very rewarding and extremely challenging. I put a lot of effort to take advantage of it the best possible way, which makes this reflection even far more important than others undertaken in other courses since it is more suitable to characterize my current performance.

As far as I am concerned, even though I participated in several different tasks during the project, I had the feeling that I prioritized my best skills such as my analytical skills over the ones I feel less comfortable such as theoretical research or qualitative analysis. If on one side, I was able to leverage on that for the benefit of the group, on the other it feels I could have challenged myself more on that particular topic.

i. Key strengths and weaknesses observable during the project

In terms of strengths, I believe my interpersonal skills allowed me to have a direct contribution to the flow and in every step of the project. Moreover, I was always available to help all the other members of the group, something that was very complemented by them. As previously mentioned, my analytical skills were very useful in multiple steps of the project and my fast capacity to retrieve conclusions from it as well. Finally, being very oriented to solve problems, I was able to contribute a lot to the final outcome and solutions of the project, but also to overcome the problems that were faced during its completion.

Regarding weaknesses, I have the feeling that I could have been more organized when presenting and storing my findings to the rest of the team. In fact, the group decided to create

templates at mid-project to help codify all members' knowledge, but until then I did not properly have done it. Additionally, I believe that my creative thinking skills are not entirely developed and had to be compensated by others' excellence on this matter.

ii. Plan to develop of your areas of improvement

Definitely, one of the most important steps to improve performance is to acknowledge what I am doing right and wrong. As such, this reflection is undoubtedly important to design a plan, but it has to be completed with other people opinion of my work. For that, I already asked my teammates for feedback and possible points of improvement. Furthermore, for future projects, I plan to be more organized so other people can easily understand what I am doing. Based on other people opinion, I also plan to state my opinions sooner, since they had the feeling that sometimes I did not agree with them but took too long to disagree and share my opinion.

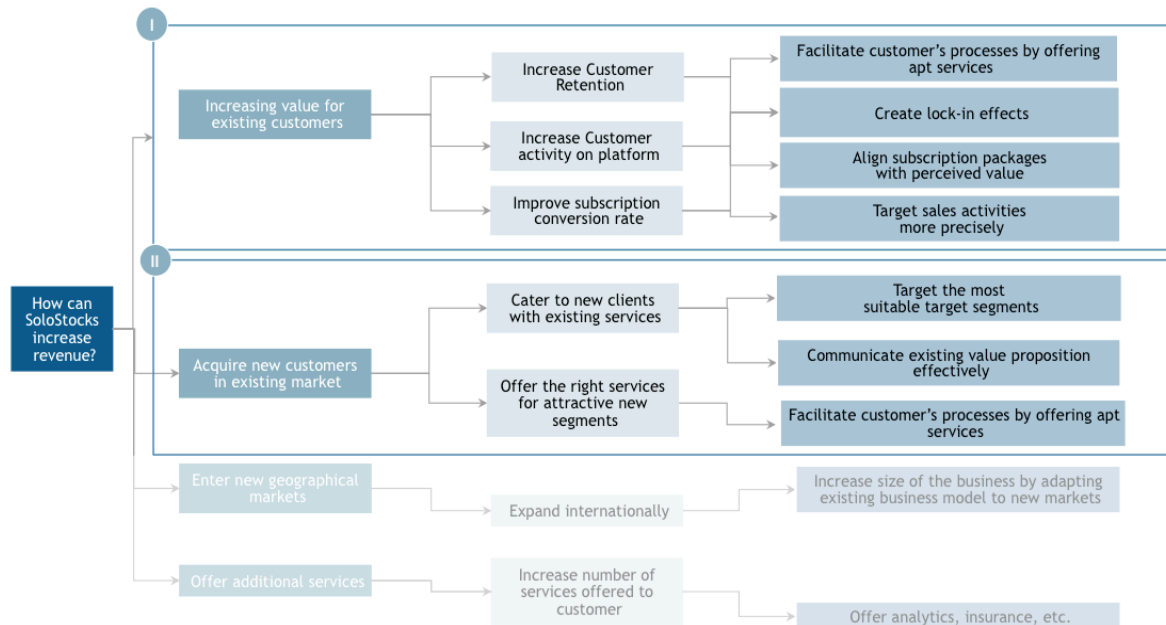
b) Benefits of hindsight: What added most value? What should have been done differently?

One of the biggest takeaways of this project was the opportunity to be part of a start-up work environment for the first time in my professional career and understand the flexibility that is present in such kind of companies. Additionally, it was very gratifying to manage the project so smoothly while working with people from different cultures and with distinctive working habits. The positive aspect to work with people from diverse backgrounds is the complementary skills a group gets that make every shortcoming possible to overcome.

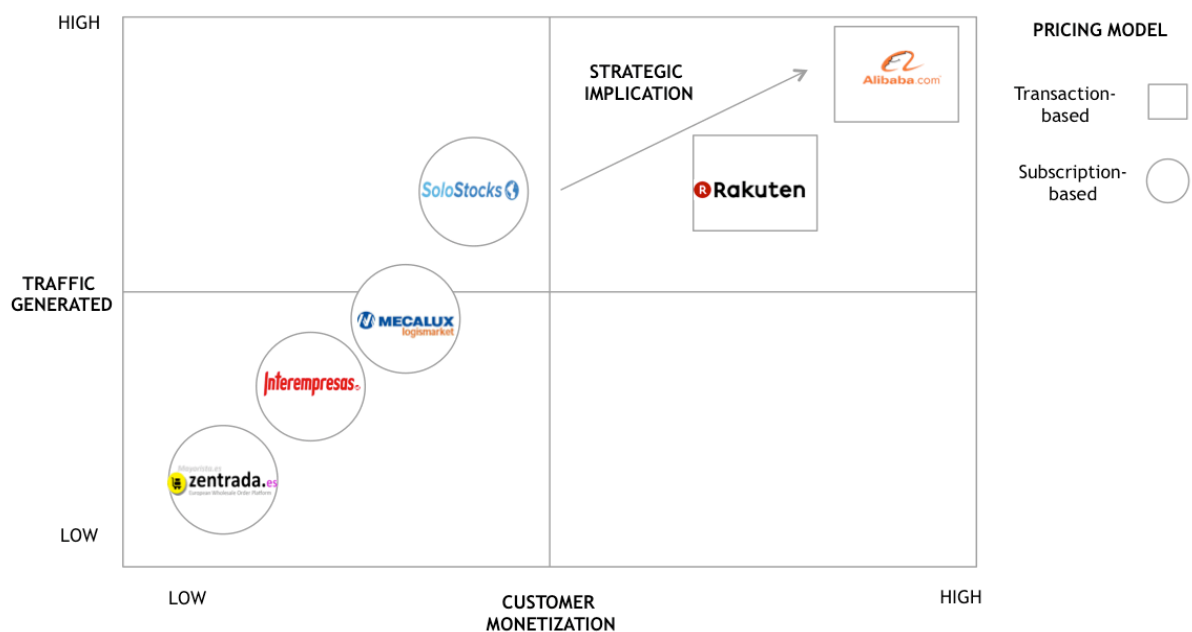
If I was to start over the Business Project today, I would be more proactive and assertive when requesting data to the company, since it was key for the development of project and I think I could have done more to get it sooner. Moreover, as a group, the workload during the semester could have been distributed more evenly over the semester.

V. Appendix

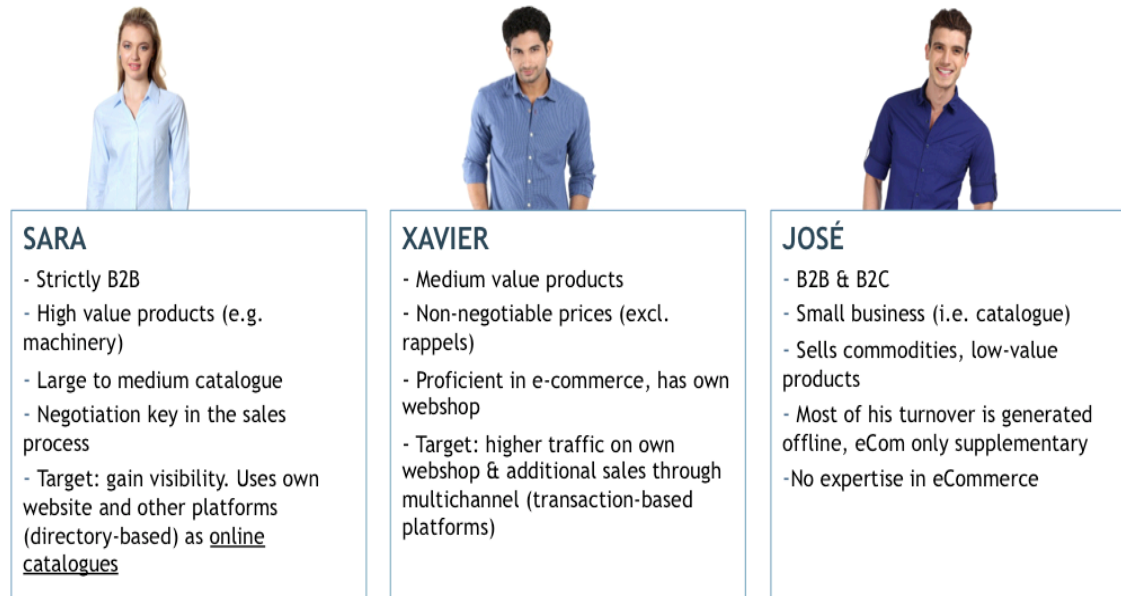
Appendix 1 – Possible solutions to increase revenues



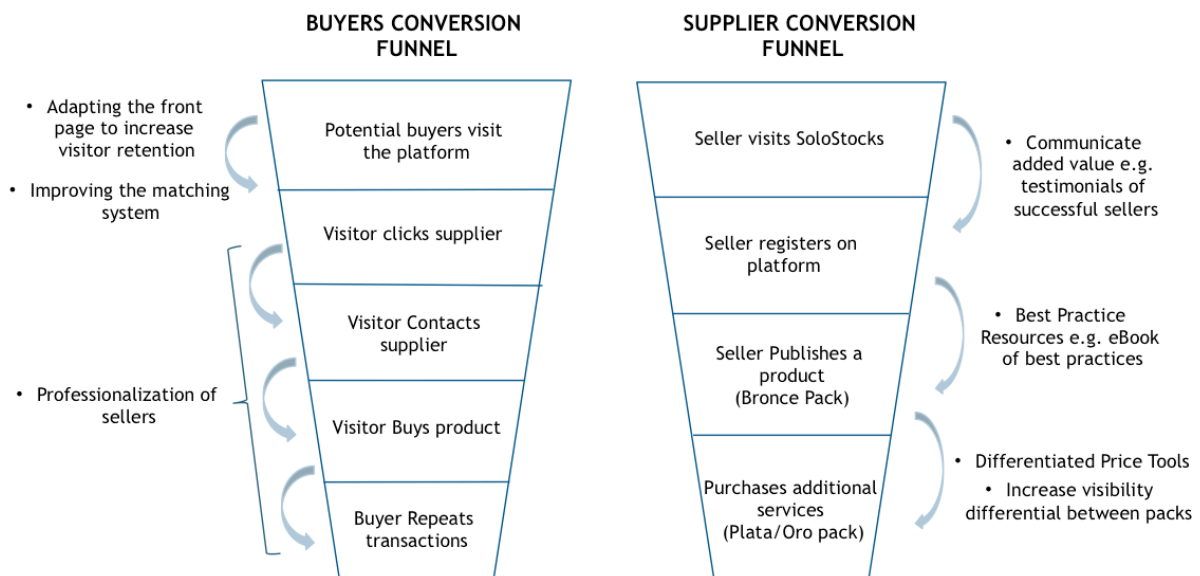
Appendix 2 – SoloStocks and Competitors Positioning Map



Appendix 3 – Personas



Appendix 4 – Conversion Funnels and Recommendations



Appendix 5 – Current SoloStocks Land Page

SoloStocks PRODUCTOS PROVEEDORES NECESITO

¡Descárgate nuestra App gratis!
Miles de proveedores a un solo click

1.500.000 artículos / 15.000 proveedores

El mayor portal de compraventa entre empresas y profesionales

Dinos qué necesitas y dónde

Busca

Ej: patinete eléctrico, chalecos reflectantes, sillón relax

O publica lo que buscas

¿Cómo funciona SoloStocks?

Añade tu empresa

Historial Mesa de vidrio Marida... Sillon Con Masaje y... Picadora de carne T22... Brico Markt, s.a. Picadora de carne GESTION DE TERMOPLASTICOS Biomar Due-home

Appendix 6 – Suggested SoloStocks Land Page

SoloStocks PRODUCTOS PROVEEDORES NECESITO

¡Descárgate nuestra App gratis!
Miles de proveedores a un solo click

1.500.000 artículos / 15.000 proveedores

El mayor portal de compraventa entre empresas y profesionales

Componentes Electricos

Alimentación

Nice one-max XM2800000 53,72 €/ud A partir de 1 unidad VER DETALLES

Cable de red industrial RJ45, 5 metros 4,95 €/ud A partir de 1 unidad VER DETALLES

Controladora Mini-pcie 2a Usb3.0 Looslink P6059a 38,27 €/ud A partir de 1 unidad VER DETALLES

Cinta aislante de PVC Würth (varias colores) 1,35 €/ud A partir de 1 unidad VER DETALLES

Pistacho Natural Repelido Irani en grano Mironous 1 30,85 €/kg A partir de 1 kilogramo VER DETALLES

Aceite de girasol refinado 427,50 €/t A partir de 18 toneladas VER DETALLES

black energy drink by milk tyson collection 4 sabores 0,36 €/ud A partir de 2.889 unidades VER DETALLES

Leche en polvo 2.100 €/t A partir de 34 toneladas VER DETALLES

Mesa de cristal 110 de acero inoxidable vidrio esmerilado 164,34 €/ud A partir de 1 unidad VER DETALLES

Mesa multiuso Salvador 110 blanco 271,24 €/ud A partir de 1 unidad VER DETALLES

SoloStocks Success Stories

"Vendo mis mesas de vidrio en SoloStocks desde hace 2013. Usando el Pack Plata, mis pedidos han subido por 20 por semana."

Susana, CEO de DIMUKA

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